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Guaranteeing Bank Deposits

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GUARANTEEING BANK DEPOSITS.

By

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THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

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Chapter 1.

Various Attempts to Guarantee Bank Deposits.

The recent agitation throughout the United States for a guarantee fund for bank deposits is by no means a new one. The number of panics and bank failures in recent years has brought the plan again before the public. The increase of deposits in the banks of this country has been very great, and many people think that there should be greater security for their deposits. The banks alone have not been the only institutions which have been closely scrutinized by the people. Insurance companies and corporations have been closely examined, and attempts have been made to correct their defects.

The first attempt to secure bank deposits by a guarantee fund was made by the people of New York State,and their attempt did not prove in vain. In the year 1829 the State Legislature of New York passed the Safety Fund Law. The distinctive feature of this law was a provision which required the establishment of a common fund. Each banking corporation thereafter created or whose charter was renewed or extended was required to contribute annual -ly a sum equal to one-half of one per cent of its capital stock paid in, the payments to be continued until every such corporation had contributed an amount equal to three per cent of its capital stock. The fund was to be in charge of the State Comptroller and the State Treasurer, and the income was to be returned to the banks after the expenses were paid. Whenever the fund was reduce -ed by payment on account of insolvency, the several banks were required to continue their annual contributions until the limit

of three per cent of the aggregate capital of all banks was reach-ed.*

The immediate effect of the passage of the "Safety Fund Act" was to stimulate the growth of the banking business in New York State. During the year of the passage of the act no less than eleven new institutions sprang into existence, while sixteen banks whose charters expired had been renewed. In 1830 nine more new banks were established. These were followed by nine new associat-ions in 1831, while eight New York City banks renewed their charters. The following year seven new banks were established and two rechartered. In the course of the years 1833-1836, inclusive, no less than twenty-eight new banks were chartered. By the end of 1839 or ten years after the enactment of this law, a total of ninety-three banks had either been rechartered or newly establish-ed with a combined capital of $38,000,000. This compared with thirty banks in exsistence at the time of the passage of the law*.

In spite of this rapid creation of new banks, the Safety Fund Act had been in existence nine years or until May, 1837 before there was any occasion to draw upon the reserve it created. In the year 1837, the Safety Fund was drawn on for the first time. Three banks with a circulation of $413,961 recieved $54,483 from the fund. These banks were not insolvent, and they speedily re-paid the amount advanced from the fund. Charters of two other banks were repealed the same year, but one was revived shortly thereafter. Thus the Safety Fund was virtually intact when the great crash of 1840-1842 came. This disastrous series of bank failures was inaugurated by the City Bank of Buffalo, which went

* Wall St. Summary, Sept. 30, 1908.
* John J. Knox-History of Banking pp. 404.

under Feb. 3, 1840. In December of the same year, the Wayne County Bank failed. A year later the Commercial Bank of New York failed, followed by the Bank of Buffalo. Two more banks failed before the close of 1841, and before October of the ensuing year five additional banks had gone into the hands of receivers. In the case of the first three failures, the Comptroller proceeded to redeem notes as fast as presented in accordance with the Act of 1837, which amended the original law so as to provide that immediate payment should be made of notes of insolvent banks, whose liabilities in excess of assets should not exceed two-thirds of the fund. However when the Bank of Buffalo went under with outstanding circulation to $400,000 or $100,000 more than the sum available in the fund, the Comptroller announced his inability to redeem its notes. While he had a fund of $300,000 he felt under obligations to apply this sum to the liquidation of the claims of depositors and other creditors of banks which had previously failed*

The collapse of the Safety Fund was thus complete, although only four banks had failed up to that time. Two weeks after the Bank of Buffalo failed a third institution of the same city, the Commercial Bank of Buffalo collapsed. Three weeks later another state bank failed, and then came the cataclysm of 1842 when five banks went under in rapid sequence within less than nine month.

Desperate efforts had already been made to save the fund, and prevent further disaster. The Legislature by the Act of May 26, 1841 amended the Safety Fund Law so as to require solvent banks to anticipate payment of assessments, if necessary to reimburse the fund. The Comptroller immediately availed himself of the

* Wall St. Summary, Sept. 30, 1908

authority thus conferred , but the fund was wholly inadequate to meet the demand upon it.

Up to this time the Comptroller had considered all creditors on an equal basis. The courts had been appealed to and upheld his interpretation of the law calling forth a vigorous protest by the Bank Commissioner, who maintained that the Safety Fund was primar--ily designated to secure bank note holders and not depositors and other creditors*

On April 12, 1842 the Legislature passed a bill providing that upon payment of the liabilities then charged against the fund, it should thereafter be applied only to the redemption of the circulating notes of the failed banks. It was not until 1851 that the Comptroller finally completed payment of the debts of eleven banks which had failed in the years 1840, 1841, and 1842. During that period the capital stock of the insolvent banks aggregated $3,150,000 and their circulation $2,675,000. The Safety Fund contributed $1,615,302 toward redemption of their notes and $1,088,109 toward the payment of their remaining debts. A failure in 1848, another in 1854, and three more in the panic year 1857 completed the list. In 1867 the last payment out of tha fund was made. During the period of its operation contributions to the fund amounted to $3,104,999.51, and disbursements to $2,600,000 the balance having been expended as interest on advances made to the fund at various times.**

Vermont's Bank Guarantee System was established by a law enacted in 1831, modeled closely on the Safety Fund Act of New York

* Review of Reviews, Vol, 37, pp. 347.
* Wall St. Journal, Sept. 30, 1908.
* J0hn J. Knox-History of Banking, pp.404.

As in the case of the latter it was designed to create a fund out of which creditors of any bank that should become insolvent might be paid. For this purpose each bank chartered thereafter was required to pay into the State Treasury the sum of four and one half per cent upon the amount of its capital stock in six annual installments. In the case the fund was reduced, it was to be augmented by assessments made by the State Treasurer. The fund until used was to remain the property of the respective banks contributing, and the income after paying expenses was to be paid to such banks annually.*

An example of its practical working is found in the history of the Essex Bank, which in 1839 went into a receiver's hands. This bank had been incorporated in 1832 under the Safety Fund Law with a capital of $40,000 and a paid up capital of $25,000. When it failed a large part of extensive loans made to persons outside of the State proved uncollectable. Its statement showed a circulation of $66,262 and deposits of $3,798 to meet which there were bills discounted aggregating $98,537. After an examination the Bank Commissioner reported that the combined assets and the entire fund would not only prove inadequate to redeem the bills of the bank, but the entire assessment which the banks then chartered would be required to pay in under the law would not suffice for that purpose. In 1840 an act was passed limiting the circulation to twice the paid up capital instead of three times its amount as formerly allowed.* In 1842 the General Assembly passed an additional act relating to banks, the important part of which was a provision that banks thereafter chartered might

* Wall St. Summary, Oct. 4, 1908
* John J. Knox-History of Banking, pp.355

be relieved from the contribution to the Safety Fund if the directors should execute satisfactory bonds with the condition that they should "at all times pay and redeem according to law all bills issued by such bank, and should pay and refund all deposits made in such bank when such payments were demanded". This act also required not only that one-half of the capital should be paid before the bank went into operation, but that the other half should be paid in within two years. Loans to directors, stockholders, and individuals were also more strictly limited than heretofore.

The Free Banking Act of 1851 permitted the organization of banks of $50,000 and not more than $200,000 capital and allowed them to issue notes on a pledge of United States stocks and certain state stocks deposited with the State Treasurer. This law was somewhat less stringent than the previous ones, and there were but four banks organized under it. While this law was in existence some thirteen banks procured charters permitting them to transact business under the more stringent Act of 1840. They preferred to voluntarily impose upon themselves conditions which would inspire public confidence rather than take the advantage of the greater freedom of the new act. The panic of 1857 showed that these banks were on a solid foundation, for although their circulation was reduced one-half in sixty days they continued to pay specie on demand. With the taking effect of the National Banking Act, State Banks in Vermont ceased to exsist*.

* John J. Knox-History of Banking, pp.355.

Condition of State Banks of Vermont before National Bank Act.

Table.

Years	No. of Banks	Loans&Dis.	Specie	Cap. Stock	Circulation	Dep.
1834	17	$1,879,813	$59,958	$921,815	$1,463,713	$180,792
1839	19	2,888,812	129,319	1,325,530	1,966,812	308,349
1844	17	2,225,245	92,562	1,137,500	1,743,807	289,079
1849	24	3,613,227	120,798	1,826,975	2,322,962	330,195
1854	40	6,572,951	196,680	3,275,656	3,986,709	745,170
1859	46	6,946,523	198,409	4,029,240	3,882,983	787,839 *

* Wall St. Summary, Oct.4,1908.

In 1836 the Legislature of Michigan took up measures compelling all banks chartered up to that time as well as all those that should thereafter recieve charters to provide a Safety Fund for the payment of the debts of any of their number which should fail. This was a copy of the New York Safety Fund System, adopt-ed in 1829, and like that required the banks to contribute annually one-half of one per cent of the capital until they had contributed three per cent of such capital. There was no provisions for enforcing the payment to the safety fund, as some of the chartered banks complied with the law and some did not. The fund, however, gave the bills of the chartered banks some reputation of superiority over the bills of the banks under the free banking system authorized in 1837.*

The Deposit Guarantee Law of Oklahoma went into effect in March, 1908. I will discuss this law in the following chapter.

The Nebraska Legislature passed the Bank Guarantee Law on March, 25, 1909. This law includes in the guarantee scheme all state banks and private banks receiving money subject to check, pass-books or draft, but bars national banks from the association. The law provides for a State Banking Board consisting of the Governor, Auditor, and Attorney-General. This board shall control the enforcement of the new law. The law gives additional powers to the governor by authorizing him to appoint the secretary of the board at a salary of $3,000 per year, and three bank examiners at salaries of $1,800 per year each. The Nebraska law provides for a levy of one-fourth of one per cent of their daily deposits four times a year which levy goes to form the guarantee fund in each of the banks taking part.

* John J. Knox-History of Banking, pp.732

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It does not specify which deposits shall be guaranteed and which shall not, but it protects the banks in the matter by providing that no bank shall be allowed to pay over four per cent on deposit-s. When a bank appears to the Banking Board to be in an insolvent condition, then the Board can appeal to the Attorney-General, and the latter makes complaint to the judge of the District Court in which the bank is located, and the judge can appoint a receiver. If there is sufficient money at the disposal of the receiver to pay off all depositors, the receiver can call on the State Banking Board for the amount necessary to make up the deficit*.

The State Legislature of Kansas last winter passed a Bank Guarantee Law. This law provides that a bank must be in operation one year before it is eligible to join the association; the bank must be certified to be in the first class condition by a bank examiner; the bank is assessed one-twentieth of one per cent of its deposits, or so much as necessary to maintain the association funds at $500,000. In addition it must put up a $500 bond for every $1,000,000 deposits as apledge to pay assessments; the interest on these bonds goes to the bank. If a bank fails, a receiver is appointed by the Bank Examiner, who issues to each depositor a certificate of indebtedness at the legal interest rate, and winds up its affairs. Any difference in liabilities and assets is paid from the guarantee fund. Any time a bank violates a State Law or departs from sound banking, the Bank Commissioner may wind up its affairs. Assessments are limited to not over five in one year, making the maximum one fourth of one per cent*.

* American Banker Vol. lxxiv, pp.1260
* American Banker Vol. lxxiv, pp.1258

A group of one hundred banks in Georgia and Florida have a mutual depositor's guarantee. Chartered banks of Mexico have long maintained a voluntary league among themselves under the pratical working of which, all come to the aid of each other in time of peril whether from internal or external cause with the result that no such bank has failed, and hence no depositor has suffered loss since the system was adopted under the advice of President Diaz*.

* Reveiw of Reveiws Vol. 37, pp. 346.

Appendix.

The following table shows the number of failures of Private and State Banks in the United States during the years 1864-1906. In discussing the guarantee scheme it is essential to know the number of failures that occured and the conditions of the defunct institutions.

Table.

Year	Failures	Capital	Assets	Liabilities.
1864	2	$		
1865	5	125,000	$ 245,401.97	$ 225,662.14
1866	5	275,000	1,206,035.00	890,112.00
1867	3	260,000	222,075.00	138,821.00
1868	7	276,381	183,002.30	148,886.00
1869	6	100,000	77,861.00	361,961.73
1870	1			50,000.00
1871	7	220,000	2,314,871.90	2,654,187.15
1872	10	470,000	2,126,124.18	3,059,318.06
1873	33	907,000	4,644,889.01	6,938,653.01
1874	40	770,000	4,125,731.00	4,562,879.00
1875	14	2,413,900	9,190,283.98	12,365,475.25
1876	37	961,000	7,312,218.73	9,206,429.34
1877	63	2,491,250	13,137,835.47	15,223,785.49
1878	70	3,250,193	26,001,949.67	27,269,520.51
1879	20	1,370,465	5,102,691.94	5,253,307.22
1880	10	452,200	1,629,146.61	1,311,799.49
1881	9	436,750	585,653.06	1,785,890.45
1882	19	545,000	2,765,951.10	2,608,489.57
1883	27	870,000	2,813,915.19	3,193,747.39
1884	54	1,718,596	12,900,819.05	15,508,389.70
1885	32	1,099,400	2,982,879.51	4,883,454.27
1886	13	254,000	1,300,536.30	1,140,824.48
1887	19	931,590	2,865,300.30	3,074,622.29
1888	17	745,500	2,805,326.52	3,342,336.52
1889	15	363,250	1,279,900.68	2,147,057.18
1890	30	2,169,568	10,692,385.98	13,358,584.64
1891	44	2,071,300	7,190,824.69	6,365,198.77
1892	27	578,840	2,719,410.75	3,227,608.56
1893	261	16,641,637	54,828,690.65	46,766,818.80
1894	71	3,112,447	7,958,284.18	7,218,319.51
1895	115	3,906,350	11.276,529.09	9,010,584.93
1896	78	3,400,642	10,240,244.97	7,513,837.41
1897	122		17,929,163.00	24,090,879.00
1898	53		4,493,577.00	7,080,190.00
1899	26		7,790,244.00	10,448,159.00
1900	32		7,675,792.00	11,421,028.00
1901	56		6,373,372.00	13,334,629.00
1902	43		7,323,787,00	10,332,666.00

Table (cont.)

Year	Failures	Capital	Assets	Liabilities
1903	26		$ 2,166,852.00	$ 4,005,643.00
1904	102		24,296,823.00	31,774,895.00
1905	57		6,591,515.00	10,273,023.00
1906	37		6,591,515.00	7,187,858.00

The total number of failures during the year 1906 was thirty seven, the assets of the banks being $6,591,515 and the liabilities $7,187,858. Included in the thirty seven failures of 1906 were 15 state banks, 5 savings banks, 4 trust companies and 13 private banks. The failures by geographical sections were as follows: New England, 3. Eastern States, 2. Southern States, 16; Middle Western, 14, Western States, 1. Pacific States, 1. The assets of the 16 banks which failed in the Southern States amounted to $5,110,414 and their liabilities to $4,806,924. The assets of the 21 banks failing in the other section aggregated $1,481,101 and liabilities$2,380,934.*

The following table shows the growth of banking in the United States including island possessions, as indicated by the number of banks and capital stock from 1902 to 1906.

Bank	Number	Capital
1902		
National	4,535	$701,990,554
State	7,889	499,621,208
Reporting capital only	3,732	138,548,654
Total	16,156	1,340,160,416
1903		
National	4,939	$743,506,048
State	8,745	578,418,944
Reporting capital only	4,546	152,403,520
Total	18,230	1,474,328,512
1904		
National	5,331	$767,378,148
State	9,519	625,116,824
Reporting capital only	3,994	81,409,702
Total	18,844	1,473,904,674

* Report of Comptroller 1906, pp.40

1905	Number	Capital
National	5,668	$791,567,231
State	10,742	671,599,149
Nonreporting	3,500	76,664,000
Total	19,910	1,539,830,380
1906		
National	6,053	$826,129,785
State	11,852	739,163,401
Nonreporting	3,491	75,356,000
Total	21,396	1,640,649,186

Since 1902 the increase in the number of banks has been 5,240, capital stock has increased in the sum of $300,488,770*

* Report of Comptroller of Currency 1906, pp.45

The following table shows the increase in deposits in National banks from 1863-1906.

National Banks.

Year	Banks	Individual Deposits.
1863	66	$ 8,497,681.84
1864	508	122,166,536.40
1865	1513	500,910,873.22
1866	1644	564,616,777.64
1867	1642	540,797,837.51
1868	1643	580,940,820.85
1869	1617	511,400,196.63
1870	1648	507,368,618.67
1871	1790	596,587,487.54
1872	1940	682,846,607.45
1873	1976	618,517,245.74
1874	2027	619,350,223.06
1875	2086	604,512,514.52
1876	2082	619,350,223.06
1877	2074	604,512,514.52
1878	2055	598,805,775.56
1879	2052	775,495,966.01
1880	2095	1,066,901,719.85
1881	2164	1,102,679,163.71
1882	2308	1,066,901,719.85
1883	2529	1,106,453,008.23
1884	2664	987,649,055.68
1885	2732	1,111,429,914.98
1886	2875	1,169,716,413.13
1887	3070	1,235,757,941.59
1888	3150	1,331,265,617.08
1889	3326	1,436,402,685.65
1890	3573	1,485,095,855.70
1891	3692	1,602,052,766.59
1892	3784	1,764,456,177.11
1893	3783	1,539,399,795.23
1894	3737	1,695,485,346.08
1895	3706	1,729,550,241.03
1896	3661	1,629,688,393.60
1897	3606	1,729,550,241.03
1898	3590	2,225,269,813.21
1899	3602	2,380,610,361.43
1900	3942	2,623,997,521.88
1901	4291	2,964,417,965.82
1902	4666	3,152,878,796.65
1903	5118	3,176,201,572.89
1904	5477	3,707,706,530.93
1905	5833	3,989,522,834.51
1906	6137	4,199,938,310.35

* Report Comptroller of Currency 1906 PP.423

Table.

Insolvent National Banks.

Number of Insolvent Banks, Amount of Loss to Creditor's, Per cent of Loss, and Ratio of Loss to Individual deposits, by years 1865 to 1904.

Year	No.	Amount of Loss	Per cent of Loss	Per cent of Loss to dep.$ in Nat. Bks in operatian
1865	1	$51,278	42.00	.010
1866	2	836,888	75.60	.148
1867	7	902,048	26.86	.167
1868	3	69,792	22.65	.012
1869	2	46,627	19.43	.009
1870				
1871				
1872	6	358,424	14.00	.058
1873	11	1,877,165	27.08	.301
1874	3	172,283	45.75	.026
1875	5	1,921,553	74.87	.289
1876	9	371,350	26.67	.057
1877	10	60,091	1.65	.010
1878	14	404,923	14.78	.065
1879	8	224,190	20.22	.031
1880	3	754,638	70.14	.006
1881				
1882	3	2,201,872	37.01	.196
1883	2	158,390	25.90	.015
1884	11	1,522,830	23.95	.156
1885	4	859,084	22.75	.078
1886	8	45,173	5.27	.004
1887	8	1,977,652	37.57	.158
1888	2	751,716	20.93	.056
1889	2			
1890	9	297,002	26.77	.019
1891	25	4,192,206	61.83	.264
1892	16	1,946,379	17.92	.110
1893	66	------		
1894	21	'		
1895	36	'		
1896	27	'		
1897	38	'		
1898	7	'		
1899	12	'-21,725,422	29.21	
1900	6	'		
1901	11	'		
1902	2	'		
1903	12	'		
1904	20	'		

Aggregate	438	$147,309,310	29.21	
Average	11	3,682,732	29.21 *	.0807

Table

Per capita circulation of money in the United States.

Per capita

Gold	Silver	Paper	Total
$16.91	$8.18	$6.93	$32.02*

* Report of Comptroller of Currency 1906 pp.351
* " " " " " " " 431

Chapter II.

The Oklahoma Law.

Article II.

Section 1, The State Banking Board shall be composed of the Governor, the Leiutenant-Governor, the President of the Board of Agriculture, State Treasurer, and the State Auditor. Said Board shall have the supervision and management of the Depositor's Guaranty Fund hereinafter provided for, and shall have the power to adopt all suitable rules and regulations not inconsistent with the law, for the management and administration of the same.

Section II. The State Banking Board shall levy against capital stock an assessment of one per cent of the bank's daily average of deposits, less the deposits of the United States and State Fund, if otherwise secured,for the preceeding year, upon each and every bank and trust company organized or existing under the laws of this State, for the purpose of creating a Depositor's Guaranty Fund. Said assessment shall be collected upon call of the State Banking Board. In one year from the time the first assessment is levied, and annually thereafter; each bank and trust company subject to the provision of this Act shall report to the Bank Commissioner the amount of its average daily deposits for the preceeding year, and if such deposits are excess of the amount upon which one per cent was previously paid, said reports shall be accompanied by additional funds to equal one per cent of the daily average excess of deposits less the deposits of the State Fund, if otherwise secured and less the deposits of the United States goverment for the year over the preceeding year, and each amount shall be added to the depositor's guaranty fund. If the depositor's guaranty fund is depleted from any cause it

[illegible]

[illegible]

Section 1. The State Banking Board shall be composed of [illegible]

Section 2. The State Banking Board shall have [illegible]

shall be the duty of the State Banking Board in order to keep said fund up to one per cent of the total liabilities in all of the said banks and trust companies subject to the provision of this Act, to levy a special assessment to cover such deficiency, which special assessment shall be levied upon the capital stock of the banks and trust companies subject to this Act, according to the amount of their deposits as reported in the office of the Bank Commissioner. And such special assessment shall become immediately due and payable.

Section 3. Banks and trust companies organized subsequent to the enactment of this Act shall pay into the depositor's guaranty fund, three per cent of the amount of their capital stock when they open for business, which amount shall constitute a credit fund subject to adjustment on the basis of the deposits as provid -ed for other banks and trust companies now exsisting at the end of one year; Provided, however, said three per cent payment shall not be required of new banks and trust companies formed by the re-organization or consolidation of banks and trust companies that have previously complied with the terms of this Act.

Section 4. Any National bank in this State approved by the bank commissioner may voluntarily avail its depositor's of the protection of the depositor's guaranty fund by application to the State Banking Board in writing and the said application may be sustained upon terms and conditions in harmony with the purpose of this Act, to be agreed upon by the State Banking Board and the Bank Commissioner; Provided, that in the event National banks should be required by the Federal enactments to pay assessments to any depositor's guaranty fund of the Federal Goverment and

thereby the deposits of the National banks in this State should be guaranteed by virtue of Federal laws, that the national banks having availed themselves of the benefits of this Act, may with -draw therefrom and have returned to them ninety per cent of the unused portion of all assessments levied upon and paid by such banks.

Section 5. Whenever any bank or trust company organized or exsisting under the laws of this state shall voluntarily place itself in the hands of the bank commissioner, or, whenever any judgment shall be rendered by a court of competent jurisdiction, and judging and decreeing that such bank or trust company is insolvent, or whenever the bank commissioner shall become satis -fied of the insolvency of any such bank or trust company, he may after due examination of its affairs take possession of said bank or trust company, and its assets and proceeds to wind up its affairs and enforce the personal liability of the stock-holders, officers and directors.

Section 6. In the event that the bank commissioner shall take possession of any bank or trust company which is subject to the provision of this Act, the depositors of said bank or trust company shall be paid in full and when the cash available or that can be made immediately available of said bank or trust company is insufficient to discharge its obligations to deposit-ors the said banking board shall draw from the depositor's guarantee fund and from additional assessments if required, as provided in Section two, the amount necessary to make up the deffiociency, and the State shall have for the benefit of the depositor's guarantee fund a first lien upon the assets of said

bank or trust company, and all liabilities against the stockholders, officers and directors of said bank or trust company and against all other persons, corporations or firms. Such liabilities may be enforced by the State for the benefit of the depositor's guaranty fund.

Section 7. The bank commissioner shall take possession of the books, records and assets of every description of such bank or trust company, collect debts, dues, and claims belonging to it, and upon order of the District Court, or judge thereof, may sell or compound all bad or doubtful debts, and on like order may all the real or personal property of such bank or trust company upon such terms as the court or judge thereof may direct, and may if necessary, pay the debts of such bank or trust company, and enforce the liabilities of the stockholders, officers and directors; Provided, however, that bad or doubtful debts as used in this section shall not include the liabilities of stockholders, officers or directors.

Section 8. The bank commissioner shall deliver to each bank or trust company that has complied with the provisions of this Act a certificate stating that said bank or trust company has complied with the laws of this State for the protection of bank depositors and that safety to its depositors is guaranteed by the depositor's guaranty fund of Oklahoma. Such certificate shall be conspicuous -ly displayed in its place of business and said bank or trust company may print or engrave upon its stationery and advertising matter words to the effect that its depositors are protected by the Depositor's Guaranty Fund of the State Of Oklahoma. The printing or engraving of a false statement to the fact last before

this named, is hereby declared to be felony.

Section 9. After the bank commissioner shall have taken possession of any bank or trust company which is subject to the provision of this Act, the stockholders thereof may repair its credit, restore or substitute its reserves, and otherwise place it in condition so that it is qualified to do a general banking business as before it was taken possession of by the bank commiss -ioner; but such bank shall not be permitted to open its business until the bank commissioner, after a careful investigation of its affairs is of the opinion that its stockholders have complied with the laws, that the banks credit and funds are in all respects repaired, and all advances, if any , made from the depositor's guaranty fund fully repaid, its reserve restored or sufficiently substituted, and that it should be permitted again to re-open for business; whereupon said bank commissioner is authorized to issue written permission for the re-opening of said bank in the same manner as permission to do business is granted after the incor -poration thereof, and thereupon said bank may be re-opened to do a general banking business.

Section 10. Any bank or trust company which has complied with the provisions of this Act, shall be eligible to act as a depository of State funds, or any fund under control of the State or any officer thereof, upon compliance with the laws of this state relating to the deposits of public funds*

The Oklahoma law provides that the State Banking Board consisting of the Governor, Leiutenant-Governor,the President of the Board of Agriculture, State Treasurer, and State Auditor shall levy an assessment of one per cent of the banks average

* Constitution of Oklahoma.

daily deposits for the guarantee fund, while the early laws of New York and Michigan provided that an assessment of one-half of one per cent of the bank's capital stock should be made until three per cent of its capital stock was reached. The Vermont law in 1831 provided that each bank was required to pay into the State Treasury four and one-half percent of its capital stock in six annual installments. All these laws provided that special assess-ments shall be made whenever the guarantee fund is depleted by the failure of a bank. The Nebraska Law like that of Oklahoma provides for the levying of an assessment of one per cent of a bank's average daily deposits. Under the Kansas Law banks are assessed one-twentieth of one per cent of their deposits or so much as necessary to maintain the association funds at $500,000. Each bank is required to put up a $500 bond for each $100,000 of deposits.

The Oklahoma Law provides that any national bank in the state if approved by the bank commissioner may avail itself of the protection of the depositor's guarantee fund. On August 1, 1908, Attorney General Bonaparte rendered an opinion to the effect that national banks could not be permitted to take advantage of the law of Oklahoma on the ground that contributions to the fund amounted to a contract by a bank to guarantee the obligations of a third party.** The Nebraska law includes all state and private bankers, but bars all national banks fron joining the association.

One of the misconceptions concerning this law and a wide spread one, is that the State Goverment stands pledged to pay all bank losses. This is far from being the case. The State

* Wall St. Journal, Aug. 4, 1908.

* Wall St. Summary, Aug, 10, 1908.

Goverment does not stand pledged to pay any bank losses. The credit of the state is not in any way pledged to the payment of deposits in any bank. Losses do not become a liability of the state. They would have to be replaced by another assessment. The State Banking Board is not required by law to give any kind of an indemity bond as security for the fund. The guarantee fund is not kept in cash in the State Treasury, but is re-deposited in the banks, and is kept loaned out by them. The Oklahoma law provides for a small segregation of a certain small per cent of the assets of the State banks. If loans made from it can not be cashed promptly the losses can not be paid.

Between Jan. 1, and Oct. 31, 1908, forty-seven new state banks and two national banks were organized in Oklahoma. All but five of these were capitalized at only $10,000. Twenty-two of these were state banks reorganized under the provisions of the new law.

Up to the time of Attorney-General Boaparte's decision, fifty seven national banks took up the plan. After the decision forty-five of the national banks withdrew, and the remaining twelve were converted into State banks.*

The mania for starting new banks is not confined to the towns alone. In the little village of Harrah, which has about one-hund-red and fifty inhabitants, two banks have been organized, their total local deposits being less than $15,000.

Men of indifferent character are allowed to organize banks. One of the new banks in Oklahoma was started by a man released from the penitentiary; another by a man who had twice failed in business and had then organized a national bank. In this he had obtained only $27,000 in deposits on a capital of $25,000.

*Journal of Pol. Econ. Vol. 67, ppl.

On the first of last July he started a State bank under the new law and by September 23, his deposits amounted to $111,381,75. In another case a saloon-keeper had been forced out of business by the prohibition law, started a bank on very small capital,and very soon had deposits to the amount of $30,000 or $40,000*.

The Oklahoma law does not contemplate building up from year to year a fund large enough to meet financial contingencies, but simply keeps the fund equal to one per cent of the total deposits at any one time. There is nothing in the law that proposes to in -crease the security underlying all deposits, capital, surplus, undivided profits, reserves, and stockholders liabilities. The law has led to the reduction of capital in numerous cases of re-organization, and organization of new banks on a legal basis. The Oklahoma Law fails to discriminate between cash and credit deposits. Most people overlook the fact that eighty-five or ninty per cent of all bank deposits are really created by loans. The business man gives his note to the bank and gets in return the credit of the bank which is negotiable. The Oklahoma law therefore protects creditors of banks who become such by reason of loans made by themselves or others.

Appendix.

The following table shows the condition in the State Banks of Oklahoma and Indian Territory-1890-1906.

Oklahoma.
Table.

Amounts in thousands.

Date.	No. Of Banks.	Capital.	Deposits.	Total Assets.
1890	3	$200	$ 169	$408
1891	2	200	242	510
1892	4	185	662	936
1893	6	300	592	1077
1894	6	300	604	1089
1895	5	250	651	1033
1896	5	250	449	828
1897	5	250	676	1093
1898	6	300	923	1378
1899	8	400	1438	2116
1900	24	865	2956	4706
1901	46	1558	8389	12226
1902	67	2270	9482	14897
1903	85	3935	11977	19482
1904	95	3625	10656	18426
1905	98	3780	12822	21881
1906	118	4260	17690	28829

Indian Territory.

1890	2	110	$ 61	$ 210
1891	3	150	120	338
1892	6	349	349	876
1893	6	360	424	952
1894	6	360	938	1548
1895	7	410	689	1418
1896	8	460	700	1495
1897	10	595	1165	2135
1898	14	795	1454	2788
1899	15	860	1892	3356
1900	30	1317	2307	4577
1901	53	2100	4831	9359
1902	69	2779	5896	11917
1903	87	3955	7175	15182
1904	107	4680	8099	17705
1905	133	5629	11657	24059
1906	151	6465	14068	28999*

Table.

Abstract of Report of condition of State Banks in Oklahoma and Indian Territory(now Oklahoma)

	No, of banks.	Total resources	Capital Stock	Individual Dep.
OKLA.	283	$14,505,367	$2,934,700	$10,346, 086
I. T.	57	3,538,299	1,362,300	1,752,833

* Report of Comptroller of Currency 1906, pp. 490.

** Report of Comptroller of Currency 1906, pp. 357.

Chapter III.

Arguments in Favor of Guaranteeing Bank Deposits.

Our complex and colosal business fabric rests upon the banks of the country; in turn the banks depend for their solvency and continued usefulness upon a mutual confidence between themselves and their depositors, which exsists in prosperous times, but suddenly disappears when needed in times of stress.

The banks borrow the money with the agreement that it shall be repaid in cash on demand. Banks give no securitiy in return, save a memorandum entry in a pass book. A bank may lawfully borrow returnable on demand, ten or more times the amount of the paid in capital, and then proceed to loan 75% of the whole on time notes. They put beyond their reach for periods ranging from thirty days to six months a very large amount of borrowed money. If the present banking system can be said to have a foundation, it consists of confidence on the part of average depositors of all classes that their money can be and always will be repaid on demand.

One of the arguments put forth by the advocates of the guarantee fund is that it will increase the confidence of the depositors. Mutual confidence between banks and their depositors is an absolute necessity.

General A. B. Nettleton says;"Nothing will prevent future panics but absolute knowledge on the part of bank depositors that their money is safe". Deposit insurance would bring out many millions of dollars from places of hiding,and thus swell bank deposits, and benefit the whole community. This gain alone would more than compensate for their trifling contributions to the annual cost of deposit insurance. Well considered legislation providing for deposit insurance would(virtually) naturally include other

safe-guards, such as prohibition of chains of banks under one owner-ship. The pecuniary interest which all solvent banks would have in limiting failures would lead them to use all their influence to check and expose the operations of unsafe bankers, and to make it virtually impossible for the wild-cat element to continue in the banking business.*

General Nettleton puts forth a good argument when he says "that depositors must have absolute knowledge that their money is safe." One of the best arguments given in favor of the guarantee fund is that it will include other legislation, which will add to the security of the depositors. I am of the belief that we can obtain the required banking legislation with out having a guarantee fund.

* Review of Reviews Vol. 37- pp. 340

~~safeguards, such as prohibition of chains of banks under on ownership.~~ General Nettleton says, " the pecuniary interest which all solvent banks would have in limiting bank failures would lead them to use all their special knowledge and influence to check and expose the operations of unsafe bankers. I think the policy at the present time is to expose all bad banking operations, and to correct them at once. Our banks use all their powers to prevent failures. In large cities there are clearing house associations. Banks which are menbers of clearing house associations have their operations closely scrutinized. Their bad banking methods are corrected. When a menber of the clearing house needs financial assistance, the other menbers of the association come to its rescue. I am heartily in favor of the clearing house system, and believe it is one of the best parts of our banking system.

The advocates of the guarantee system contend that bankers are borrowers as well as those who receive loans from the banks.

Governor Hoch of Kansas gives this argument as follows. He said that the man behind the counter is as certainly a borrower as is the man in front of the counter, and that the demand for security for depositors is not more unreasonable than is the demand of the banker for security for his loans. The National Goverment recognizes that, and deposits no currency in a National bank until the depesit is amply secured*

Our National Banking Laws, provide that all shareholders of National banks are individually liable to the creditors of such a bank to any amount equal to and addition to the amount of stock held by them, respectively, for all debts and contracts made by such bank.* All reserve city banks are required to keep on hand

* Commoner, Sept. 25, 1908, pp.3 National Banking Laws 1907 pp 54

at all times in lawful money twenty-five per cent of the aggregated amount of the deposits in all respects, and every other association shall at all times have on hand, in lawful money of the United States, an amount equal to at least fifteen per cent of the aggregate amount of its deposits in all respects.*

These laws were passed for the security of the depositors and they should be strictly adhered to.

The Secretary of the Treasury requires all national banking associations designated as public depositories to give satisfactory security by the deposit of United States bonds and otherwise, for the safe-keeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Goverment.*

The financial operations of our National Goverment are more important than those of any individual depositor. Governor Hoch places goverment deposits on a par with those of an individual. The financial operation of the United States should run no risk of being impaired.

Senator Owen of Oklahoma gives the following argument in favor of the guarantee fund:-1 It will have a powerful tendency to promote and establish the stablility of our national commerce by the prevention of a panic. 2 Depositors from whom banks make their dividends are entitled to protection*

I do not beleive a guarantee fund would prevent a panic. In a panic the people are afraid that they can not get their money immediately. They want to withdraw all their money from the banks. A safety fund would diminish this fear. It is denied by no one that depositors are entitled to protection.

National Banking laws 1907 pp. 54
* Commoner Vol. 8,pp.3 National Banking Laws 1907 pp. 24

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One of the greatest defects in our present system of banking is the length of time required to settle the affairs of insolvent banks. Steps should be instituted to remedy this defect. The affairs of insolvent banks should be managed by competent officials who do not neglect the demands of the creditors.

Congressman Gaines of Tennessee learned from the Deputy Comptroller of the Currency that the average time required to settle the affairs of insolvent banks was four years, and that the annual loss to creditors of insolvent banks as estimated to be in 1894 to 1906, inclusive, based upon known results prior to that period was $1,114,233. This report he says further, commenting upon the Comptroller's report,"states the amount of loss from 1865 to 1907 was $47,911,583. "Then, Mr. Gaines comments,"For a depositor to wait on an average of four years to get back his deposits, and perhaps, lose a part of it , and all without his fault is oppresive and offensive, and does not encourage him nor any other creditor of the bank to seriously continue the present manner of conducting national banks".*

William Jennings Bryan one of the foremost exponents of the guarantee fund gave an address before the Economic Club of New York on the subject. His chief argument in favor of the plan was that "the guarantee fund would make all banks good, and that the big banks would not have the advantage over the little ones" Mr Bryan replies to the objection of the guarantee fund that the banks will be recklessly managed as follows,"The officers of the banks are selected by the directors, and the directors are chosen by the stockholders, and the stockholders would loss all of their surplus and then they would have ~~to~~ the 100% liability deposit before any-

* Democratic Campaign Book

* Journal of Commerce Sept 22, 1908

other bank could lose anything.

I do not think that the guarantee fund would make all banks safe. The character of the officers of the bank determines to a large extent the success of the bank and the amount of its deposits. Officers and directors should be chosen who have strong characters and who would not violate the sacred trust put in them. They should strictly observe all the banking laws and regulations, and should carry on the banking operations in a careful and honest manner. Speculative and reckless management has been the cause of many bank failures.

Appendix.

Table

National Banks.

The relation of deposits to other assets, especially those of capital, surplus and profits.

1907	19.5	51.5	71
1906	18.8	52.4	71.2
1905	19.0	51.1	70.1
1904	20.8	49.6	70.4
1903	20.7	50.0	70.7

The tendency to carry a larger proportion of deposits on the basis of a given investment in capital etc. is evident in the comparison of the ratio in 1897 with that of 1907. In the former year (September) for each dollar of capital, the surplus and profit in national banks were $1.92. In 1907 the ratio was $1.00 to $2.65. The ratio of capital alone to individual deposits in 1897 was $1.00 to $2.93*

* Wall St. Summary, Aug.27, 1908.

Chapter IV.

Arguments Against Guaranteeing Bank Deposits.

The ignorance of the public on all banking and financial questions is very great. This has been the cause of many financial embarassments. The popular opinion of bank deposits is that they represent cash taken into the banks by individuals. The average person is unacquainted with the workings of our banking systems and is ready to follow false economic principles concerning our banks.

Dean Kinley says; "The popular notion of bank deposits is that they represent cash taken into a bank by individuals and left there for safe-keeping to be drawn on at need. The figures of bank deposits reflect the loans made by the bank. A proposal to insure these deposits is therefore a proposal that the banks shall create a safety fund to secure the payment of the amounts they have agreed to loan either on commercial or personal paper. They have recieved no money. The proposal to create a safety fund is therefore , in the main, a proposal that the banks be taxed to insure the payment of what they promise to lend."*

One of the leading arguments in favor of the guarantee fund is that it will prevent a panic. This argument has been criticized very much.

Dean Kinley says,"such a scheme would not prevent runs. In a panic the people are afraid that they can not get their money immediately. This fear will not be removed by the knowledge that they can finally get one-fourth or one-third of it, according to the proportion of the safety fund. They will insist on drawing out their funds when a scare comes".*

* Review of Reviews Vol. 37,pp.345

* Reveiw of Revieiws Vol. 37,pp.345

Former Governor Myron B. Herrick said. "The guaranteeing of bank deposits would no more prevent a panic than fire insurance a conflagration.*

I agree with Dean Kinley when he says the guarantee fund would not prevent runs on a bank. If the depositors know that the bank is conservatively and economically managed they will have no fear of losing their deposits, and will not make runs upon a bank. The vital point is that the banks should be honestly managed. A guarantee fund will not cause banks to be conservatively managed.

One very common argument against the guarantee fund is that under it there would be no premuim for conservatism and integrity. Conservative managed banks would have to pay debts of banks which have been dishonestly managed.

Had the proposed Bryan bill been in effect for the last ten years Congressman Hill of Conneticut shows that the banks of the State of Conneticut would have received in return for the expenditures for insurance, the sum of $ 31,387 the balance going to pay the debts of banks in other sections of the country, for which they were in no way responsible financially or morally. In this way depositors in conservatively managed insitutions would be partners with an unknown and unlimited liability with all the banks of the United States. The total tax for the last year over the entire country would have been insufficient to meet the total liabilities*

Postmaster General Meyer says, "the guaranteeing of deposits by all national banks would mean nothing less than that conservative managed banks would have to pay the debts of banks which have been badly and dishonestly managed."

* Wall St. Summary Sept. 5,1908
* Journal of Commerce, Aug.25,1908

Deputy Comptroller of the Currency Kane says," that the depsitor's guarantee offers no premuim for experience, prudence, and conservatism, but holds the careful and reputable banker responsible for his proper share of the deposit liabilities of his injudicious or speculative neighbor when disaster overtakes the hazardous adventures of the latter.*

Any policy which would eliminate the premuim for conservatism and integrity is a bad one. It is not according to sound economic principles that sound financial institutions should pay the depositors of badly managed banks which have failed. All of our banking laws should put a premuim on conservatism and should punish dishonest officials.

The recent movement for a deposit guarantee originated in a rapidly developing section of our country. Oklahoma was the first state to pass a guarantee law, and Oklahoma has been followed by Kansas and Nebraska.

Deputy Comptroller Kane finds the most persistent advocates of this theory in sections of the country where interest rates are high and banks compete with each other for deposits by offering a share of the interest to depositors. Offering interest on deposits in order to secure them for loans at high rates is surely risky business and not safe banking.*

It is argued by many that if there is a guarantee fund, it will completely eliminate the public from discriminating between one bank and another. Banker Forgan of Chicago is an advocate of this veiw.*

I do not think the guarantee fund would keep the public from

* Journal of Commerce Sept. 12,1908
* Bankers Mag. Vol. 76,pp. 221

discriminating between banks. The character and personality of the officers of a bank has a great influence upon the depositors. Bank depositors should watch the reports and closely scrutinize the condition of the bank which they are going to intrust with their deposits.

Some people say that all creditors should be insured alike, and that there should be no distinction between those who have bank deposits and other creditors such as washerwomen and cobblers.

Prof. J.L. Laughlin of Chicago University says" if one sort of creditor should be insured against the mischances of business why should we not insure all?" "An humble washerwomen who often has outstanding debts which she can not collect ought to be insured as well as a depositor. The same might be said of the cobbler, grocer etc.*

Prof. Laughlin's parallel between a washerwomen and a depositor is absurd. The banks of this country are a necessity for commercial and business development. Deposits in the banks are the aggregate savings of all classes of people, and not the savings of a particular class. It is a social necessity that all banks be closely examined and scrutinized. Our complex and colossal business fabric rests upon the banks of the country. Without banks commercial development would be at a standstill.

* Scribners Vol. XLIV, pp.101

Appendix.

Table.

1908.

Total deposits in national banks exclusive of deposits by the goverment. $ 4,313,000,000.

As an ultimate guarantee fund against these deposits over and above the actual assets of the bank in the shape of investments, commercial paper, buildings etc, are listed the following items, which can be called upon for the liquidation of the banks in case of bankruptcy:-

Reserve Resources	
Capital	$ 912,361,019
Surplus	555,000,248
Undivided profits	203,108,414
Stockholders Liab.	273,000,000
Total	$ 1,943,470,581

This is a total of 45% of the deposits. It is held by the banks themselves.*

Table

The following table shows in detail the net deposits and cash in the vaults of national banks of the United States on July 15, 1908 and corresponding calls of six preceeding years.

Year	Deposits	Cash	Per cent.
1908	$ 5,464,614,059	$ 849,018,749	15.53
1907	5,256,085,097	701,623,532	13.34
1906	4,927,865,451	626,012,410	12.70
1905	4,735,477,535	665,533,299	14.05
1904	4,100,935,409	661,456,529	16.13
1903	3,863,512,112	554,316,026	14,34
1902	3,844,365,538	507,993,738	13,21

* Bankers Mag. Vol. 76, pp. 561

The percentage of cash to deposits is now 15.53% as against 13.34% in 1907 and 12.70% in 1906. Only in 1904 was there a larger percentage, the proportion of cash to deposits in that year being 16.3%. The country banks held a percentage of 8.62% of cash to deposits as nearly one-fourth of all the deposits in the national and state banks, trust companies, and savings banks in the United States are in the banks of greater New York. If a tax were levied upon bank deposits for the purpose of guaranteeing the same the banks of the City of New York would have to pay nearly one-fourth of the tax. In discussing the subject of the proposed guarantee of bank deposits it is important to know where the deposits are. It is estimated by the Comptroller of the Currency that in 1907 there was a total of $13,077,330,466 of deposits in all the banks of the United States, national , state , savings and trust companies. This compares with $7,235,890,276 in 1900.*

Table.

The following table shows how the total deposits were divided between the different sections of the country in 1907.

States	Total Bank Dep.	Per cent of whole 1907	1900
New England	$1,959,276,300	15.00	19.69
Eastern	5,597,125,652	42.80	47.46
Southern	1,008,449,455	7,71	5 .18
Middle West.	3,036,877,047	23.22	19.43
Western	607,178,247	4.64	3.26
Pacific	868,423,765	6.63	4.98
United States	$13,077,330,466	100.00	100.00
	1900		
United States	7,235,890,276		

* Wall St. Journal, Sept. 5. 1908

Nearly 58% of all the deposits are in New England and the Eastern States. The proportion of the deposits in the East is gradually declining, while that of the Western States is increasing. The proportion of the deposits in the New England States has fallen from 19.43% in 1900 to 23.22% in 1907, and there are similar advances in the other Western, Southern, and Pacific States. The per capita bank deposits in the United States have increased from $95 to $152 in seven years, a gain of 60%.*

* Wall St. Journal, Sept. 5. 1908

Chapter V

Conclusion.

The plan of guaranteeing bank deposits is by no means a new one as is shown by ChapterI. The plan was tried in New York , Michigan, and Vermont, but did not meet with success. Like the agitation for free silver, it was made a party issue in the last presidential campaign. Important financial and economic questions should not be settled according to popular vote, but by deep scientific and ecomomic study.

The stability and structure of our banking system depends upon the security of deposits in our banks. There must be confidence in our banks or the whole business fabric of our coubtry will be weakened. The banks are the foundation for all commercial development. The banks should also have confidence in the dépositors. There should be cooperation between them.

The goverment of this country should see that its banks are in a healthy and flourishing condition by making regulations and improving those which are in force, but it should not take up an unsound economic scheme. The guarantee fund for bank deposits is a plan which will appeal to the uneducated and those unaquainted with banking conditions. The advocates of this plan say that it will prevent a run upon a bank and therefore prevent a panic. In a panic the people are afraid that they can not get their money out immediately. This fear will not be removed by the knowledge that they cam get one-fourth or one-third of it, according to the proportion of the safety fund. They will insist on drawing out their funds when a scare comes. In Oklahoma the fund is deposited in the banks, and if a scare should come, it is readily seen that the banks would be in very precarious positions.

It is not a very good principle that conservatively managed banks should be taxed to pay depositors in defunct institutions which had been managed recklessly. The conservative banker should reap all the reward that his honest and efficient management has produced.

If banks are conservatively and honestly managed there will be no runs on them when a scare comes. Honest management should be the goal of every bank official. He should not forget what unlimited trust the people have put in him, and he must not be swerved from the path of success.

The proper plan to male deposits secure is to improve our banking laws. We should surround our bankers with regulations stringent enough to encourage their integrity and adequate penalties for their failure to observe them. Efficient bank examiners should be appointed who will be able to find defects in the banks, and who will able to correct them. Bank officers should be elected who will strictly adhere to all banking rules and regulations. There should be no speculation or misappropriation of funds. I am in favor of the extension of clearing house associations and think they are good parts of our present system.

A bank honestly managed should have no fear of destruction or ruin, and it should keep on helping commercial interests and thus become a financial bulwark.

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